

JAPANESE INVESTMENT IN HONG HONG TOWARDS 1997  
ITS IMPLICATIONS AND FUTURE DIRECTION

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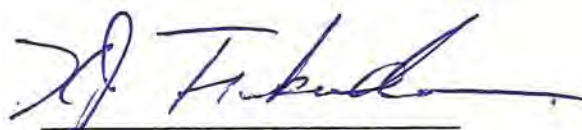
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## ABSTRACT

Hong Kong has three valuable assets throughout its economic development in the past few decades - its energetic population, its close relationship with mainland China, and its strategically important position as a financial and service centre in the Far East. These assets further attract considerable amount of money which flows into Hong Kong in different forms. Some is generated from exports while other is gained through the growing tourist industry. Yet one other major form of capital inflow is direct foreign investment from other countries. China and the United States have long been the leading foreign investors in Hong Kong's various industries. However, the role played by Japan should hardly be neglected. Japanese investors had sown their seeds in Hong Kong a long time ago when some of the Japanese manufacturers moved their production bases to the territory. With the rise of Japan's economic power and the prosperity of Hong Kong, Japanese investment in Hong Kong has grown rapidly in terms of volume and dimensions. But since 1982, the economy of Hong Kong was deeply disturbed by the 1997 lease issue. Many investors, including those from Japan, have taken a much more conservative attitude towards the future of Hong Kong. This paper tries to understand the reactions of the Japanese investors in general and to project their future direction and investment strategy. Last but not least, we will identify some key areas or industries that particularly draw the attention of the Japanese investors.



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## CHAPTER I

### INTRODUCTION

Hong Kong has transformed from a small and backward oriental fishing village to a modernized international metropolitan within this century, notwithstanding its lack of natural resources and limited availability of land for development. With its historical background as a British colony, the rapid rise of Hong Kong to one of the world's major commercial centres may seem to be a miracle. However, thousands of underlying causes are actually contributing interactively to its success. The talents, hardwork and dedication of its people make up the backbone of the entire social and economic system upon which a solid foundation for growth and development has been built. Apart from human resources, capital is another indispensable element for economic development. Any economy, without adequate capital accumulation and investment, can hardly experience the early stage of take-off, let alone actual industrialization and commercialization. Capital investment injected by foreign countries or companies are therefore extraordinarily essential for the development and continued prosperity of the Hong Kong economy. Among these foreign investors, those from Japan play an important role in making heavy direct or indirect investment in Hong Kong.

### Objectives Of This Study

The project will concentrate on the study of the Japanese investment in Hong Kong and investigate into its pattern or trend, if any. Analysis will be conducted on the effects of the capital flow from Japan, particularly on some specific component markets in the Hong Kong economy.

The objectives of this study are as follows:

- To figure out the rationales and strategies behind the Japanese investment
- To project the trend and direction of future Japanese investment
- To examine the implications and effects on Hong Kong
- To identify any areas or industries with high growth potential

### Foreign Investment In Hong Kong

Hong Kong has virtually no natural resources beyond its industrious population, its deep-water harbour, and its favourable location. Traditionally, its role in the international market has been that of a centre of trade. Since the 1950's, however, activity has shifted towards the manufacture of light industrial consumer goods such as the textiles and clothing, electronics, plastic products, and toy industries. As these export-oriented industries experienced tremendous growth, the manufacture of machine tools, industrial equipment and other light engineering products started to flourish and offer supports to local industries. Hong



Kong has gradually established a firm base in the medium and heavy engineering industry as well.

Rapid industrialization required huge capital investment and advanced technological support, particularly for those small economies without comparative advantages. Hong Kong has soon reached a point in its economic growth path where an inflow of foreign funds and technology is required to supplement the domestic sources available for investment. As a result, foreign investment became a vital catalyst in injecting capital funds, spreading technical know-how, transferring managerial skill, and raising productivity, which has contributed to the development of the Hong Kong economy and the enrichment of its people's lives.

To maintain an attractive environment for foreign investment, the government of Hong Kong makes no distinction between domestic and overseas companies. Both must face unrestricted competition on the local and international markets. Although Hong Kong does not offer special fiscal incentives to foreign investors, a number of factors have attracted them to the territory, such as its central location in the Far East, the government's laissez faire economic policy, the low tax structure, simplified business registration procedures, and excellent infrastructure. The recent open door policy adopted by China further strengthens the gateway position of Hong Kong. Consequently, overseas investors are attracted to do business in Hong Kong. Japan, with its economic expansion after World War II, has accumulated advanced technology, effective management and huge capital. It is one of the world's leading investors having great interests in Hong Kong.



### Japan's Economic Ties With Hong Kong

Hong Kong and Japan are close neighbours on the Pacific rims and have long-standing economic relationships, which can be observed by looking back at their trade activities in the past ten years. Japan has always been one of the three top trading partners of Hong Kong and, until 1982, has been the largest supplier to Hong Kong. The importance of Japan to the Hong Kong economy cannot be under-estimated. This must not only be measured in terms of visible trade but also in regard to the very large investment by Japan in all sectors of Hong Kong business and industry. By the end of the 1980's over HK\$10,000 worth of Japanese goods were consumed annually, per capita, in Hong Kong. Japan was second only to China as a source of imports for Hong Kong and supplied over 20% (worth HK\$56.4 billion) of the total in 1986. Imports from Japan rose drastically to around HK\$102 billion in 1990.<sup>1</sup> Foreign investment from Japan even accelerated rapidly from 1986 onwards. The accumulated total of Japanese investment in Hong Kong increased at an average annual rate of 29.3%, from US\$2.9 billion in fiscal 1985 to US\$8.1 billion in fiscal 1989, and to US\$9.8 billion by the end of 1990.<sup>2</sup>

Hong Kong is entirely open to and also heavily dependent on Japanese investment. In manufacturing, property, and commerce there is a strong

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Sato, Shizuko, and Tam, Tat-wing, *Hong Kong & Japan - Growing Cultural & Economic Interactions*. The Japan Society of Hong Kong, 25th Anniversary Commemorative Volume. p.261

2

"Direct Foreign Investment in Hong Kong." *Economic Report Hong Kong Bank*. February 1991.



and growing Japanese presence in Hong Kong, which are directly or indirectly affecting our daily life. The Hondas and Toyotas running on our streets, the Aiwa and Sony Hi-Fi's in our homes and the Yaohan's and Sogo's in satellite towns can exemplify the Japanese economic penetration. Moreover, the Japanese companies in Hong Kong are providing jobs for many thousands of Hong Kong workers. The areas invested by the Japanese are very diverse including commercial infrastructure, shipping and distribution, banking and financial services, merchandising, and tourist related activities, etc.

As Japanese investment is vital from Hong Kong's point of view, Hong Kong is also of equal importance to Japan. Hong Kong was the fifth largest export market and seventh largest territory for Japan's overseas direct investment in the early 1980's.<sup>3</sup> Direct exports to Hong Kong has increased steadily over the last decade. According to the statistical data from Census & Statistics Department of Hong Kong, the value of imports from Japan increased from HK\$25,644 million in 1980 to HK\$93,202 million in 1989, up 360% in ten years.<sup>4</sup> About ten thousand Japanese, mostly businessmen and their families, are living in Hong Kong and half a million Japanese visit Hong Kong in a year.

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Fujii, Hiroaki, *The Future of Hong Kong and Japan* The Japan Society of Hong Kong, 25th Anniversary Commemorative Volume. p.171

4

"Hong Kong Annual Digest of Statistics 1990 Edition." *Census & Statistics Department, Hong Kong.*

Obviously the continued prosperity of the Hong Kong economy is not only our home affair but also an international concern, which is particularly important for the Japanese investors. In view of the uncertainties during this transitional period in the run-up to Chinese takeover in 1997, will Hong Kong still be one of the best places to invest? Being a major trade partner with Hong Kong, the strategy and direction of Japanese investment are certainly a sound indicator to both the foreign and even local investors.

## CHAPTER II

### METHODOLOGY AND APPROACH OF STUDY

#### Approaches of this Study

An exploratory research will be conducted to find the necessary data we need. We will use the following approaches :

- Project the direction of future Japanese investment in Hong Kong based on past and current performance. The trading and investment information of the last five to seven years will be searched, consolidated and categorized. Trends for future investment and the areas of interest of the Japanese investors will be identified, if any.
- Try to view from Japan's perspective the position of Hong Kong in her global investment strategy. The result will then be compared with the deduction from the first analysis to see if we can get a consistent viewpoint.

#### Research Problems Definitions

Having decided on the approach of study, the following research problems are defined :



- To highlight the importance of Hong Kong in the global investment strategy of Japan.
- To examine the existing Japanese investment and identify the focus in Hong Kong.

### Data Collection Methods

We will conduct extensive literature survey to collect the information we need. The main sources of our information are :

- Statistical reports from Census and Statistics Department of Hong Kong.
- Newspapers and Journal clippings, e.g. Asiaweek.
- Reports of various Japanese groups in Hong Kong.
- Reports of various Hong Kong Trade groups, e.g. Association of Hong Kong Exporters and Importers, and the trade development agencies, e.g. Hong Kong Trade Development Council.
- Similar survey reports and the publications related.

### Data Analysis and Interpretation

Based on the figures collected, we can find out the trend and the changes of Japanese investment in Hong Kong. Opinions of Japanese execu-



tives and various report writers will be quoted and scrutinized so as to conclude on the reasons why Japanese are so interested in Hong Kong.

### Limitations and Obstacles

To research on this topic is no easy task. On one hand, Japanese investment is always the banner head-line of worldwide media and there are a lot of researches, TV shows and studies investigating on this topic. However, they are all from the Japanese point of view and most of the research reports are on her investment in the U.S. and Europe. On the other hand, the statistics available from various sources in Hong Kong is mainly on the trade values and little statistics is done on foreign investment, not to mention the sub-classification of Japanese investment. Moreover, there are a number of practical limitations and obstacles on this research that we have to solve or to compromise :

- The definitions of terms used in different reports and studies are often not exactly the same. Especially those figures quoted are usually referred to different classifications. A lot of effort has been spent on rectifying these figures.
- The collection of primary data is too resource-consuming and is not feasible for a study of this scope.
- The information are very disperse. We have to visit a lot of institutions and read a lot of materials before we can have enough information to draw our conclusions.

- The most updated information is not yet available. The most up-to-date reports are only valid until end of 1990.
- Much of the updated information is only available in Japanese and we have to translate these materials into English.

Despite all these limitations, we managed to get things through and are grateful to the organizations and individuals mentioned in the Acknowledgement.

## CHAPTER III

### INVESTMENT CLIMATE IN HONG KONG

Hong Kong is strategically located along international trade routes. Lacking other natural resources, the territory depends on trade for its livelihood and is almost entirely dependent on imports to meet the needs of its industries and population. Hong Kong relies heavily on exports to generate the foreign exchange required to pay for these imports. In 1980, the total value of visible trade (domestic exports, re-exports and imports) amounted to US\$24 billion. In 1989, it increased to US\$145 billion, approximately 230% of the territory's gross domestic product (GDP).<sup>5</sup> The rapid economic growth and prosperity of Hong Kong attracted many foreign investments in the past years. At the end of 1988, the total value of cumulative overseas investment in the territory's manufacturing sector amounted to US\$3.4 billion compared with US\$2.5 billion at the end of 1986. Hong Kong has long been considered one of the best places to invest. But facing with the 1997 lease issue, does Hong Kong's investment environment and climate remain intact? Will the investors still have confidence in the British Hong Kong Government's remaining administration over the territory in the last few years? What are the local government's

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"Hong Kong Annual Digest of Statistics." *Census & Statistics Department, Hong Kong*. 1990 Edition.



policy towards foreign investment? The following paragraphs will try to answer these questions.

### Transition From Uncertainty To Stability

In 1982 and 1983 the Hong Kong economy confronted a severe test. Following the then British Prime Minister, Mrs. Margaret Thatcher's visit to Beijing in September 1982, a confidence crisis originated from the political uncertainty over the territory's future after 1997. The lack of confidence first triggered a collapse of the property market, which soon infected other financial markets. The stock market slumped. People, worried about the political future but also about the stability of the financial system, rushed to the banks withdrawing their money or converting it into foreign currencies. Political uncertainty induced significant capital outflow as well. The Hong Kong dollar was under considerable downward pressure touching an all-time low of 9.6 per U.S. dollar on September 24, 1983. Investors became hesitant in making investment in Hong Kong. Some of the local companies with historical background and reputative goodwill took lead to show their uneasiness about the future of Hong Kong by transferring their business registration to other countries or even relocating their headquarters away from Hong Kong, which further dampened the general morale. Foreign investment was reduced to a considerable extent.

Fortunately, with the successful conclusion of the Sino-British negotiation, the political future of Hong Kong has been decided. Under the terms of the 1984 Sino-British Joint Declaration on the Future of Hong Kong, which entered into force on May 27, 1985, Hong Kong will become a



Special Administrative Region (SAR) of the People's Republic of China on July 1, 1997. The British administration would continue until 1997 and the present social and economic systems were guaranteed to remain unchanged for 50 years after 1997. The terms of the agreement and the stipulations of Hong Kong's Basic Law promulgated in April 1990 provide a solid legal foundation for continued investor confidence in Hong Kong. In the meantime, the political confidence has been restored, new investments, though invariably short-term in nature, have increased, and foreign capital have flown in again.

#### Impacts Of China's Political And Economic Policies

The economy of Hong Kong was affected not only by the well-known 1997 lease issue, but also by the political and economic policies implemented by China. China previously maintained a closed-door attitude toward foreign investment due to its policy of self-sufficiency. However, at the end of 1978, the 3rd plenary session of the 11th Central Committee of the Chinese Communist Party decided on an open door economic policy, resulting in a major policy change for the positive introduction of foreign capital. Since then, the government has established various laws related to foreign investment, and the Shenzhen and three other special economic zones. Subsequently, similar economic and technical development zones were established in 14 port cities along the coast. Political stability was also maintained after the ten-year Cultural Revolution. Many multi-national companies, looking forward to a promising yield from this unexploited market, were all enthusiastic and optimistic in making

various investment in China. As the closest neighbour, the economy of Hong Kong was also stimulated positively.

The June 4 Event in 1989 certainly exerted great pressure on the confidence level of the Hong Kong people. The problem of braindrain, puzzling Hong Kong throughout the 1980's, even worsened after 1989. The financial markets seemed very volatile in response to any news or even rumours about the leaders in the Chinese Communist Party. Most of the foreign investors took a much more conservative attitude towards the future of Hong Kong. Others would rather wait and see how China was going to formulate and implement its policy towards Hong Kong. They were sensitive and reactive to the attitude of the Chinese government. Political influences overshadowed other objective conditions and factors while making the investment decisions, especially during this transitional period of time towards 1997.

#### Hong Kong Government's Attitude Towards Foreign Investment

The Hong Kong Government welcomes foreign direct investment in the territory. There is no specific legislation designed to attract foreign investors nor are there laws to protect or subsidize domestic industries. There are no restrictions on foreign ownership nor export performance or local content requirements. Profits and capital can be freely converted and remitted. Hong Kong's extensive body of commercial and company law provides for effective enforcement of contracts and dispute settlement and protection of rights, including intellectual property. As a Contracting Party, Hong Kong adheres closely to the General Agreement on Tariffs and Trade (GATT).



There are no capital gains taxes or withholding taxes on dividends or royalties. For tax purposes, deductions are allowed for the costs of patents, legal expenses incurred in borrowings, and capital expenditures for construction of buildings and structures and for machinery and equipment. Capital moves freely in and out of the territory. The Government maintains no records of capital movements.

The Government shows great enthusiasm in maintaining good investing atmosphere in Hong Kong and promoting various facilities to entertain both domestic and foreign investors. Both the British and Hong Kong Governments tried their best efforts to cultivate a friendly and mutually beneficial relationship with China in order to maintain Hong Kong's continued stability and prosperity. In addition, the construction of the new Chak Lap Kok airport was officially announced on July 3, 1991. This helped to reinforce the confidence of the existing investors and stimulate the interests of the potential ones.

## CHAPTER IV

### JAPAN'S ECONOMIC GLOBALIZATION AND DIRECT INVESTMENT

Developments in world trade over the last two decades show that the growth of world trade has been even quicker than GNP growth. Trade between advanced nations is picking up while foreign trade between Asian countries, particularly Japan and the NIC's, is growing sharply. During the 1980's, international capital transfers were characterized by the influence of accumulated debts and the U.S. external imbalance. Japan, taking advantage of the international trade opportunities and fast-changing environment, emerged to become one of the world's economic superpower. Its phenomenal rise was not surprising at all as its fundamental industrial policy and economic strategies have established a stronghold for growth and international development. Their impact in terms of trade, foreign direct investment and portfolio investment has been well documented. Globalization of industries, a widespread concept throughout Japan's business sector, led to dramatic growth of imports and exports. But more important is the impact on its overwhelming direct investment made overseas.

#### Japan's Globalization Economic Policy

One of the key priority issues of Japan's economic policy within a global context was to reduce the external imbalances and contribute to a better world. Maintenance of international peace was indispensable to



continued stable Japanese growth. Japan should contribute actively in the economic, cultural, and political spheres to stable world economic growth.<sup>6</sup> The yen's climb against the US dollar stimulated Japanese overseas investment, in particular, in the United States and Asia. Although the strengthening of the yen has undoubtedly acted as a catalyst, the seeds of Japan's emergence as a monetary power were sown 40 years before, in the early post-war years. Since 1945, Japan has demonstrated a spectacular ability to sustain a course of modernization. It has managed to transform itself through a belief in achieving the best quality, and by borrowing and improving on sophisticated management techniques and production methods. The industrial growth of the 1960's and 1970's laid the foundation for Japan's transformation into the financial giant of the 1980's. The government is much involved in economic and business affairs. Through the Ministry of International Trade (MITI), Japan has managed to direct investment into new industries and new developments around the world.

Under the guidance and direction of MITI, Japanese manufacturers have been actively expanding into overseas markets to follow their Japanese customers. Activated intra-firm trade between Japanese firms and their overseas subsidiaries and affiliates was expected to contribute to improving Japan's trade imbalance with the rest of the world. To achieve further market openness, Japan would continue to work to further improve access. Direct overseas investment would be promoted by, for example,

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Shimizu, Isaya. "Overseas Investment." *Japan Economic Almanac 1990, The Japan Economic Journal*, Nihon Keizai Shimbun Inc., pp.42-43.

improving the investment climate in the host countries and reducing investment risk. These economic policies set up by the Japanese government highly promoted the ideas of expansion and internationalization. As a result, globalization became not only the backbone of Japan's economic policy but also a popular business philosophy and direction for most of the big Japanese companies. Business decisions regarding location, production, marketing, financing, and R&D were made mostly on the basis of global market options.

### Increasing Trade Volume

To adapt to changes in the economic environment, the Japanese economy has undergone constant transformation. The corporate globalization of firms was affecting both exports and imports, in terms of both quantity and trade structure. In the area of exports, the total volume increased seventeen folds in 20 years from US\$19,318 million in 1970 to US\$286,948 million in 1990 (see Table 4.1.). The Japanese products have been distributed to almost every corner of the world. Particularly, exports to Southeast Asia doubled from 1986 to 1990, contributing to more than a quarter of the total exports in that year. Furthermore, new markets have been developed by shifting to the production of more lucrative products, mainly the capital equipment such as non-electric machinery, electric machinery and transport equipment as well as the consumer durable goods including domestic electric equipment, passenger cars and motor cycles, toys and musical instruments, etc.(see Table 4.2). In the area of imports, Table 4.3 shows that the growth rate slowed down in the early 1980's, indicating a considerable trade surplus generated, which was



Year	North America		Western Europe		Australia, N. Zealand, S. Africa		Latin America		Southeast Asia		Middle East		Africa		Communist Countries		Others		Total	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
1969	5439	34.0	2059	12.9	833	5.2	944	5.9	4448	27.8	627	3.9	794	4.9	764	4.8	82	0.6	15990	100
1974	14386	25.9	8593	15.5	3442	6.2	5065	9.1	12695	22.8	3680	6.6	3539	6.4	3927	7.1	209	0.4	55536	100
1979	28141	27.3	16434	15.9	4185	4.1	6555	6.4	26128	25.4	10734	10.4	3147	3.0	7383	7.1	325	0.4	103032	100
1984	64234	37.7	23999	14.1	8187	4.8	8549	5.0	36795	21.6	14206	8.4	2998	1.8	10602	6.2	544	0.4	170014	100
1989	99995	36.3	56494	20.5	10869	3.9	9361	3.4	73516	26.7	8559	3.1	2892	1.0	12643	4.6	826	0.5	275175	100
1990	97048	33.8	63332	22.1	9583	3.3	10280	3.6	82721	28.8	9877	3.4	3409	1.2	9842	3.4	856	0.4	286948	100

(In millions of US dollars)

Source: Ministry of Finance, Japan, 1991

Japanese Exports by Area and Country  
(Customs clearance Basis)

Table 4.1



Year	Food and Direct Consumer Goods		Industrial Supplies		Capital Equipment		Consumer Non-Durable Goods		Consumer Durable Goods		Miscellaneous		Total	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
1969	568	3.6	6175	38.6	4806	30.0	836	5.2	3358	21.0	247	1.6	15990	100
1974	848	1.5	22993	41.4	19497	35.1	688	1.2	10416	18.8	1094	2.0	55536	100
1979	1215	1.2	31649	30.7	41463	40.2	1010	1.0	26063	25.3	1632	1.6	103032	100
1984	1446	0.8	36844	21.7	79570	46.8	1907	1.1	48165	28.3	2182	1.3	170114	100
1989	1638	0.6	50180	18.2	149294	54.3	2270	0.8	67198	24.4	4595	1.7	275175	100
1990	1581	0.6	50602	17.6	154844	53.9	2444	0.9	72199	25.2	5278	1.8	286948	100

Source: Ministry of Finance, Japan, 1991 (In millions of US dollars)

Japanese Exports by Special Classifications  
of Commodities  
(Customs Clearance Basis)

Table 4.2

	North America		Western Europe		Australia, N. Zealand, S. Africa		Latin America		Southeast Asia		Middle East		Africa		Communist Countries		Others		Total	
Year	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
1969	4759	31.7	1492	9.9	1661	11.0	1162	7.7	2381	15.9	1989	13.3	683	4.5	848	5.6	49	0.4	15024	100
1974	15358	24.7	5234	8.4	5191	8.4	2713	4.4	12497	20.1	15920	25.6	1583	2.6	3141	5.1	473	0.7	62110	100
1979	24536	22.2	10106	9.1	8402	7.6	4517	4.1	26195	23.7	29377	26.5	1629	1.5	5392	4.9	518	0.4	110672	100
1984	31807	23.3	13091	9.6	9842	7.2	7230	5.3	31883	23.4	33066	24.2	1166	0.9	7982	5.8	436	0.3	136503	100
1989	56891	27.0	35126	16.7	15296	7.3	8871	4.2	52906	25.1	23054	10.9	2043	0.9	15584	7.4	1076	0.5	210847	100
1990	60761	25.8	42617	18.1	15939	6.8	9851	4.2	54601	23.2	31336	13.3	1877	0.9	16977	7.2	840	0.5	234799	100

(In millions of US dollars)

Source: Ministry of Finance, Japan, 1991

Imports by Area and Country  
(Customs Clearance Basis)

Table 4.3



closely related to the implementation of export-oriented economic policy during this period of time. Yet the pitch was picking up rapidly after 1984. The strong yen might be a good explanation for the increased imports. As there has been increased switching to local production abroad, the relative importance of imported industrial supplies tended to reduce in recent years (see Table 4.4).

As a matter of fact, the influence of market-opening/access improvement and the trend toward corporate globalization was becoming apparent. Bilateral international relations have been strengthened, resulting in an increased shift to funds into yen denominations. Corporate undertakings have been extended from a domestic to a global scale. Japan is giving careful consideration to the development of business both within Japan and overseas. Through the globalization of the economy, corporate activities have linked the Japanese economy to the world economy, chiefly in terms of goods and money.

#### Growth Of Overseas Direct Investment

Apart from the traditional trading transactions in the forms of exports and imports, direct investment in foreign countries also plays a crucial role in the international economic activities. Direct investment is the type of investment which aims at participating in actual business undertakings; for instance, the investment to set up a factory overseas, the investment to set up a branch office overseas, or the investment to



	Food and Direct Consumer Goods		Industrial Supplies		Capital Equipment		Consumer Non-Durable Goods		Consumer Durable Goods		Miscellaneous		Total	
Year	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
1969	2491	16.6	10474	69.7	1548	10.3	161	1.0	252	1.7	98	0.7	15024	100
1974	9244	14.9	45579	73.4	4362	7.0	1389	2.2	1236	2.0	300	0.5	62110	100
1979	15893	14.4	79894	72.2	7450	6.7	3015	2.7	2511	2.3	1909	1.7	110672	100
1984	17783	13.0	97680	71.6	11326	8.3	3201	2.3	2731	2.0	3782	2.8	136503	100
1989	31787	15.1	116397	55.2	26637	12.6	13603	6.5	15431	7.3	6992	3.3	210847	100
1989	32233	13.8	127860	54.5	32882	14.0	14148	6.0	20286	8.6	7390	3.1	234799	100

(In millions of US dollars)

Source: Ministry of Finance, Japan, 1991

## Japanese Imports by Special Classifications

## of Commodities

(Customs Clearance Basis)

Table 4.4

purchase company shares in order to get directly involved in the management of the issuing companies, are all included in this category.<sup>7</sup>

In response to rapid changes in the international business environment, overseas direct investment has become an important component of Japanese companies' globalization strategies. Japan's overseas direct investment started to grow in the 1970's and accelerate in full speed and capacity in the 1980's. The direct investment can be classified into three basic financial categories: 1) acquisition of securities; 2) loans; and 3) establishment and expansion of overseas branches (see Table 4.5). In 1984 year the total amount of overseas direct investment was US\$10,155 million. In 1989 it rose to US\$67,540 million, showing an average annual growth rate of more than 45%. The reasons for the high growth rate were complex. The revaluation of the yen relative to the US dollar, combined with rising Japanese labour rates, environmental pressures and a desire to reduce dependence on an increasingly-protectionist US market, caused Japanese industry to substantially increase trade and investment ties in regions other than the U.S., especially the East Asia rim. In fact, investments in Asia have been expanding steadily and taking a rising share of the total.

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7

Fukuda, John. *Japanese-Style Management Transferred - the Experiences of East Asia*. London and New York: Routledge. p.4.



Fiscal Year	Acquisition of Securities		Loans		Establishment and Expansion of Overseas Branches		Total	
	Case	Amount	Case	Amount	Case	Amount	Case	Amount
1951-1980	12799	17634	7698	16958	914	1309	23949	36497
1981	748	3248	1773	5574	42	110	2563	8932
1982	765	3375	1742	4180	42	149	2549	7703
1983	868	3753	1848	4192	38	200	2754	8145
1984	828	4595	1636	5340	35	221	2499	10155
1985	1023	5963	1552	5924	38	329	2613	12217
1986	1419	12546	1728	9208	49	566	3196	22320
1987	2126	19941	2387	12971	71	452	4584	33364
1988	2725	28638	3263	17801	89	583	6077	47022
1989	2602	43169	3910	23632	77	739	6589	67540
1990	2249	38507	3565	17598	49	806	5863	56911
Cumulative Total	28152	181370	31102	123379	1444	5464	63236	310808

(In millions of dollars)

Source: Ministry of Finance, Japan, 1991

## Japanese Transition of Overseas Direct Investment

Table 4.5



### Diversifications In Investment

Japan's surpluses and Japanese confidence of operating in the international arena have increased, so their investment flows have taken on new forms and directions. The types of investment vary and increase in different fields and regions. Yet there is a trend that the importance of non-manufacturing industries has grown drastically in recent years. Manufacturing usually implies the setting up of plants or factories and the transformation of raw materials or assembly parts into finished products. Many Japanese manufacturers, in view of the comparative advantages presented by other countries or regions such as the endowment of rich natural resources or the availability of cheap labour, moved part of or even the entire production base to these target countries. The major overseas investment in manufacturing included electric appliances, transport equipment and machinery. Although Japanese corporations have been increasing investment in manufacturing industries in the 1980's, investment has risen conspicuously in non-manufacturing industries. According to the latest Ministry of Finance figures, more than 70% of global direct investment was in the non-manufacturing sector including construction, commerce, finance and real estate, though since December 1980, owing to an amendment of the Foreign Exchange Law "real estate acquisitions" per se have not been included as a form of direct foreign investment. This "real estate" sector referred to in the statistics generally relates to the activities of real estate companies as an industrial sector in establishing a presence offshore. Among the non-manufacturing industries, the heaviest investment is in banking and insurance, followed by

real estate and services. Table 4.6 shows the combination of these two sectors in 1988, 1989, 1990, and the cumulative total from 1951 to 1990.



	FY 1988			FY 1989			FY 1990			Cumulative Total FY 1951 - 1990		
	Case	Amount	%	Case	Amount	%	Case	Amount	%	Case	Amount	%
Manufacturing												
Food	169	419	0.9	143	1300	1.9	139	821	1.4	1771	4085	1.3
Textiles	146	317	0.7	174	533	0.8	200	796	1.4	1834	3999	1.3
Lumber and Pulp	82	604	1.3	82	555	0.8	86	314	0.6	831	2969	0.9
Chemicals	180	1292	2.7	196	2109	3.1	161	2292	4.0	2047	10940	3.5
Iron and Non-ferrous metals	194	1367	2.9	198	1591	2.4	137	1047	1.8	2029	10308	3.3
Machinery	253	1432	3.0	229	1762	2.6	135	1454	2.6	2307	7932	2.5
Electric Appliances	316	3041	6.5	303	4480	6.6	269	5684	10.0	3194	20360	6.6
Transport Equipment	128	1281	2.7	148	2053	3.0	100	1872	3.3	1081	10880	3.5
Others	331	4051	8.6	356	1901	2.8	301	1207	2.1	3437	10138	3.3
Subtotal	1799	13805	29.4	1829	16284	24.1	1528	15486	27.2	18531	81613	26.2
Non-manufacturing												
Agriculture and Forestry	89	162	0.3	74	151	0.2	64	153	0.3	1239	1358	0.4
Fishery	53	94	0.2	40	47	0.1	38	61	0.1	783	739	0.2
Mining	83	1013	2.2	84	1261	1.9	100	1328	2.3	1290	16539	5.3
Construction	1064	3204	6.8	895	5148	7.6	61	300	0.5	1103	2389	0.8
Commerce	81	309	0.7	94	646	1.0	804	6156	10.8	14547	31315	10.1
Banking and Insurance	340	13104	27.9	316	15395	22.8	233	8047	14.1	2387	65319	21.0
Services	671	3732	7.9	933	10616	15.7	1004	11292	19.8	5521	34667	11.2
Transportation	457	2372	5.0	428	2927	4.3	343	2169	3.8	4269	17438	5.6
Real Estate	1348	8641	18.4	1808	14143	20.9	1637	11107	19.5	6439	45849	14.8
Others	3	3	0.0	11	180	0.3	2	8	0.0	3145	7523	2.4
Subtotal	4189	32634	69.4	4683	50517	74.8	4286	40620	71.4	40723	223136	71.8
Overseas Branches	89	584	1.2	77	739	1.1	49	806	1.4	1444	5464	1.8
Real Estate	-	-	-	-	-	-	-	-	-	2538	595	0.2
Total	6077	47022	100.0	6589	67540	100.0	5863	56911	100.0	63236	310808	100.0

(In millions of dollars)

Source: Ministry of Finance, Japan, 1991

Japanese Overseas Direct Investment by Industry  
Table 4.6



## CHAPTER V

### JAPANESE INVESTMENT IN HONG KONG

Geographically, the relative intensity of Japanese interests is spread in the three major regions of the world, namely North America, Europe, and the East Asia Rim. The United States still remains by far the single most important destination for Japan's direct investment absorbing 50% of the total for FY1989 and over 45% of the total for FY1990; however, it is losing ground to both Europe and Asia gradually. Within Asia, Hong Kong rates second only to Indonesia in cumulative terms in attracting Japanese capital though in more recent years Hong Kong has consistently out performed Indonesia in this respect. Hong Kong was accounting for 3.5%, 2.8% and 3.1% in both annual and global terms of Japanese total foreign direct investment for the fiscal years of 1988, 1989, and 1990 respectively (Table 5.1). By the end of 1990 the cumulative investment amounted to over US\$9.8 billion (see Table 5.2).

#### Japan - Largest Investor in Manufacturing

Manufacturing has long been a major sector in the process of industrialization. There was no exception for Hong Kong. In spite of the lack of natural resources, Hong Kong's manufacturing industry took off in late 1940's when the Communists took control of mainland China making large number of Chinese entrepreneur flee to Hong Kong and resume their business here. Overseas investors, pioneered by the USA, also started to invest

	FY 1988			FY 1989			FY 1990			Cumulative Total FY 1951 - 1990		
	Case	Amount	%	Case	Amount	%	Case	Amount	%	Case	Amount	%
North America												
U.S.A.	2543	22328	47.5	2848	33902	50.2	2426	27192	47.8	24225	136185	43.8
Canada	2434	21701	46.2	2668	32540	48.2	2269	26128	45.9	22944	130529	42.0
	109	626	1.3	180	1362	2.0	157	1064	1.0	1281	5656	1.8
Latin America	507	6428	13.7	421	5238	7.8	339	3628	6.4	7197	40483	13.0
Europe	692	9116	19.4	916	14808	21.9	956	14294	25.1	7425	59265	19.1
Asia	1737	5569	11.8	1707	8238	12.2	1499	7054	12.4	18634	47519	15.3
Hong Kong	335	1662	3.5	335	1898	2.8	244	1785	3.1	3732	9850	3.2
Indonesia	84	586	1.2	140	631	0.9	155	1105	1.9	1873	11540	3.7
Singapore	197	747	1.6	181	1902	2.8	139	840	1.5	2559	6555	2.1
Thailand	382	859	1.8	403	1276	1.9	377	1154	2.0	2465	4422	1.4
Malaysia	108	387	0.8	159	673	1.0	169	725	1.3	1509	3231	1.0
Philippines	54	134	0.3	87	202	0.3	58	258	0.5	850	1580	0.5
Taiwan	234	372	0.8	165	494	0.7	102	446	0.8	2400	2731	0.9
South Korea	153	483	1.0	81	606	0.9	54	284	0.5	1847	4138	1.3
China	171	296	0.6	126	438	0.6	165	349	0.6	859	2823	0.9
Others	19	43	0.2	30	118	0.3	36	108	0.2	540	649	0.3
Middle East	10	259	0.6	5	66	0.1	1	27	0.0	340	3431	1.1
Africa	74	653	1.4	88	671	1.0	70	551	1.0	1458	5826	1.9
Oceania	514	2669	5.7	604	4618	6.8	572	4166	7.3	3957	18098	5.8
Total	6077	47022	100.0	6589	67540	100.0	5863	56911	100.0	63236	310808	100.0

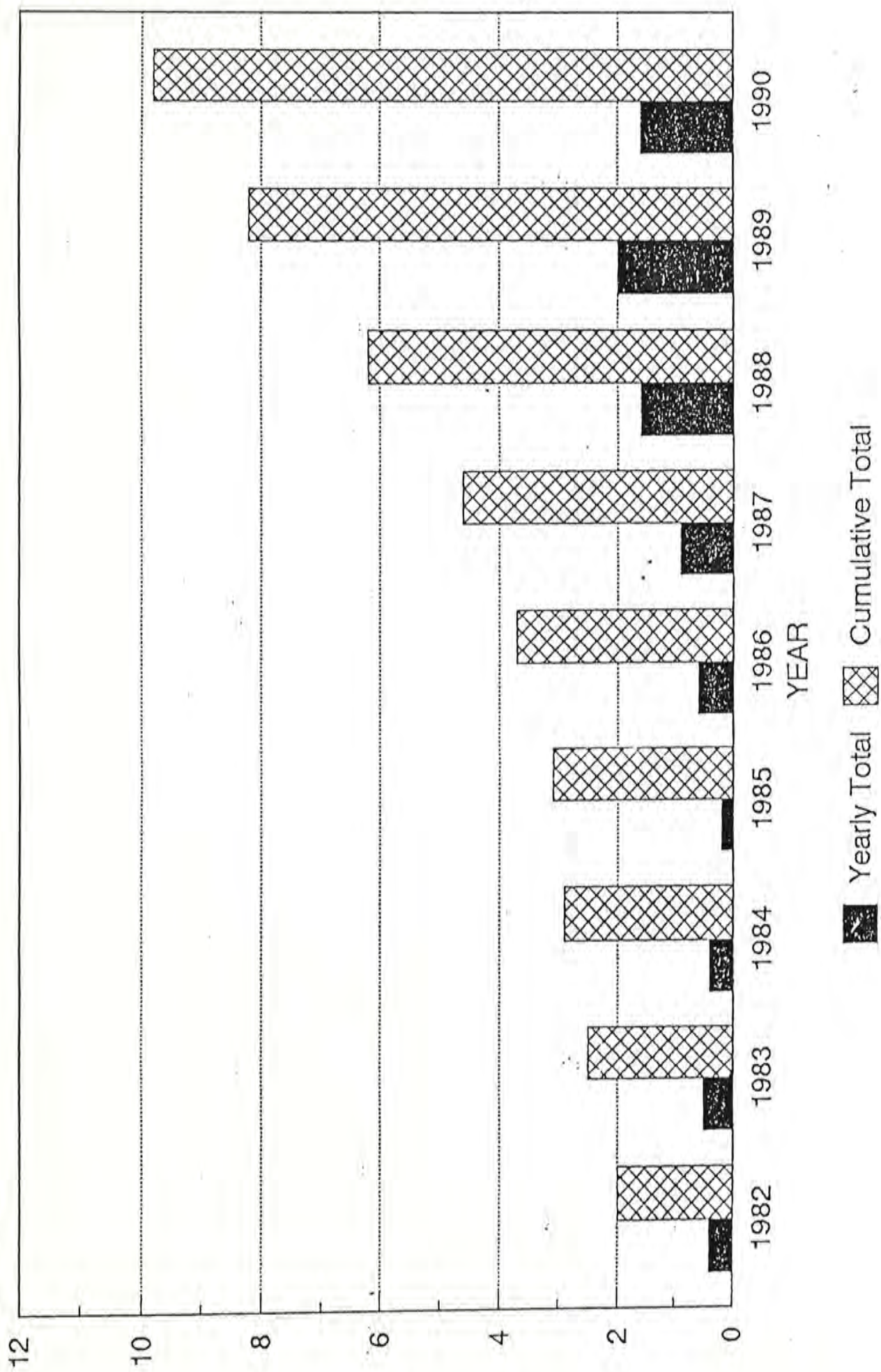
(In millions of US dollars)

Source: Ministry of Finance, Japan, 1991

Japanese Overseas Direct Investment by Area and Country

Table 5.1





Source: Ministry of Finance, Japan, 1991

in Hong Kong's manufacturing industry in the 1950's. Up to the end of 1989, the USA was still the largest single overseas investor; 31% of overseas investment came from the USA. However, by the end of 1990, Japan had bypassed the USA as the largest overseas investor in Hong Kong's manufacturing industry, owning 31.5% of the total foreign investment; USA, however, fell to second place owning 30.6%.<sup>\*</sup> Over 60% of the total overseas investment was concentrated in four industries: electronics, textiles and clothing, electrical products, and chemical products.

Japan, as the largest investor, started her investment in 1960. Between 1970 and 1979, an average of 6 new investments were made each year and the trend continued from 1980 to 1984. From then on, it was noticeable that the Japanese investment was increasing. From 1985 to 1989, the average number of new investments each year has risen significantly to 12. The value increased from HK\$6,965 million in 1988 to HK\$8,642 million in 1989, which contributed to an increase of 24% (see Table 5.3). In 1989, Japan accounted for 47% of total overseas investment made in Hong Kong's manufacturing industries in that year and in 1990, the value of Japanese investment increased by 13% to \$9,752 million (Table 5.3).

Of the different manufacturing industries, the Japanese investors were typically interested in electronics, electrical products, watches and clocks, which totally accounted for 56% of the total Japanese investment.

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<sup>\*</sup> 1991 Survey of Overseas Investment in Hong Kong's Manufacturing Industries. Hong Kong Industry Department



Source Country	Value of Total Investment at Original Cost (in HK\$ Million)									
	Jan 1969	Sept 1984	Dec 1985	Dec 1986	Dec 1987	Dec 1988	Dec 1989	Dec 1990		
Japan	73	2,409	3,273	4,009	5,609	6,965	8,642	9,752		
USA	195	6,151	5,659	8,053	7,695	8,907	9,290	9,470		
China	N/A	N/A	2,851	2,981	1,739	2,953	3,178	3,288		
UK	142	794	1,051	1,082	1,490	2,357	2,200	2,200		
Netherlands	*	325	529	719	841	682	1,221	1,154		
F.R. of Germany	1	112	190	237	398	535	583	784		
Australia	9	188	183	263	261	831	1,020	639		
Others	36	1,469	1,791	2,210	3,089	2,942	3,600	3,646		
All Countries	456	11,448	15,527	19,554	21,122	26,172	29,734	30,933		

Source: 1991 Survey of Overseas Investment in Hong Kong's Manufacturing Industries

### Overseas Investment Reported in the Survey by Source Country : 1969-90

Table 5.3

### Prospects Of Hong Kong's Manufacturing Industry

There are many reasons which account for Japanese investment in Hong Kong. Besides the fact that Hong Kong is part of the global investment strategy and diversification of Japanese firms, Hong Kong does have a lot of advantages that the Japanese cannot resist taking (Table 5.4) :

- Hong Kong has an advanced infrastructure network including good communication and transportation facilities, sound banking and financial systems.
- Hong Kong has a comprehensive set of business laws and regulations which the Japanese are comfortable with.
- The economic policy of the Hong Kong government is fair to both local and foreign investors. In fact, there is criticism that the Hong Kong government does not help local firms to compete with foreign firms which are much stronger both financially and technologically, making it hard for local manufacturers to compete.
- The profit tax, which is currently 16.5% as of February 1992, is attractively low.
- Geographically, Hong Kong has a very good location.
- Pegged exchange rate with the U.S. dollar, thus far, gives foreign investors confidence in doing business in Hong Kong.
- High productivity of Hong Kong labor force is also a decisive factor.



Investment Factor	Ranking of Importance #	Favorable	Neutral	Unfavorable
Labour Cost	1	26%	84%	58%
Banking and Financial Facilities	2	85%	13%	2%
Labour Productivity	3	63%	19%	18%
Infrastructure	4	80%	18%	3%
Political future	5	22%	31%	47%
Government economic policy	6	62%	30%	8%
Present political climate	7	26%	36%	38%
Availability of managerial skill	8	62%	23%	15%
Availability of professional/ technical skill	9	59%	20%	21%
Cost of office/ factory space	10	27%	24%	49%
Regional location	11	67%	29%	4%
Local market potential	12	47%	39%	14%

Source: 1991 Survey of Overseas Investment  
in Hong Kong's Manufacturing Industries

### Importance and Favourability of Investment Factors

Table 5.4

According to Tadashi Ohkubo, managing director of Dai Nippon Printing Co., Hong Kong : "Labour costs have risen by two digits over the past few years (years preceding 1990), and efficiency isn't rising with the costs. It is still a competitive price, but the biggest factor (keeping Dai Nippon in Hong Kong) is infrastructure." <sup>9</sup>

On the other hand, Hong Kong does have its limitations. According to a survey conducted by Hong Kong Industry Department in 1991, the ever-rising labor cost, political uncertainty and high office/factory space cost were the unfavourable factors foreign investors have to face. Though it is beyond the Hong Kong government's ability to reduce the political uncertainty which was mainly due to the 1997 issue, the government can help in stabilizing the labor cost and factory/office space cost so as to attract more foreign investment.

For the Japanese, they usually take a longer view and are confident about the future of Hong Kong. This can be exemplified by the announcement of NEC Corporation on June 20, 1989, just at the wake of the June 4 event, to establish its ninth manufacturing subsidiary in Asia -- NEC Technologies Hong Kong. The operation was going to produce personal computers, dot matrix computers and small disk drives. One year after the announcement, Ichiro Isozaki, general manager administration division, made the following comment : "Since our company was established last July to the end of our fiscal year on March 31, we have invested



\$33 million in equipment and purchasing and renovating our location. I expect we will invest that much again in our next fiscal year." <sup>10</sup>

For some Japanese firms, they are not only optimistic about the future of Hong Kong, but also taking a long-term positive view in the future of China. Masayuki Takahashi, the managing director of Epson Electronics Trading Ltd, said "I feel very optimistic about the future of Hong Kong. We bought this office space (the 25th floor of Harbour Center in Wanchai) in 1988 to use as a permanent base and Epson Precision Hong Kong also bought a big factory in Kwai Chung. We are also shifting production into China while trying to diversify the local operation." <sup>11</sup> Epson's manufacturing, in 1990, employed 2,650 people, of which 750 work at Epson Precision Hong Kong and 700 work in Shenzhen. Another 1,200 people are employed in sub-contracting.

#### Rising Importance Of Non-Manufacturing Industry

What is different about the pattern of direct investment in Hong Kong from that undertaken in other Asian countries has been its diverse nature. In other Asian countries such as South Korea, Taiwan and Singapore there has been a much heavier concentration in the manufacturing sector. In 1989, there were totally 1,047 Japanese firms operating in Hong Kong (Table 5.5). Of these 1,047 Japanese firms, only 181 are in manufacturing but the dominant feature is the 355 that are in commerce and trading, with

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<sup>10</sup>

Hong Kong Business, April 1990

<sup>11</sup>

Hong Kong Business, April 1990

Country	Total Japanese Firms	Japanese Firms In Manufacturing
South Korea	340	320
Taiwan	633	520
Singapore	514	448
Hong Kong	1,047	181

Source: To Yo Keizai Databank  
Hong Kong Post  
June 1989

#### Japanese Companies in NIC's

Table 5.5



154 involved in finance, securities and insurance, 63 in retailing/department stores and 54 in transportation and warehousing (Table 5.6). This phenomenon is believed to continue.

There are three major industries in Hong Kong in which Japan has particular interests. One is the financial services industry. More than 100 Japanese companies are in the banking sector, the securities industry and life insurance field. With its strategic position, Hong Kong is one of the world's leading financial centres. There is still room for growth from the Japanese investors' point of view. The second is the real estate. With limited land supply and rapid urbanization, the demand for both residential and commercial buildings can hardly be satisfied. Although the property prices rose 60% to 70% in average in 1991, the prospect of real estate industry in Hong Kong is still optimistic. The third is retail. As the economy becomes more affluent, the purchasing power of the consumers has been increased as well. Retail industry, particularly the department store business, has experienced rapid development in the past decade. The big Japanese department stores further stimulated the interests of consumption. According to Japan's Ministry of Finance (MOF) figures for cumulative investment to March 31, 1989, Banking and Insurance dominated the total with a 27% share followed by services with 23%; and real estate with 12%. Manufacturing took last place with 8% share.<sup>12</sup> We have investigated into these three industries and come to a conclusion that more Japanese capital investment will be injected into these areas.

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12

"Japan's Growing Economic Stake in Hong Kong," U.S. Consulate General, Hong Kong. June 1990

Trade Categories	Number of Companies	Number of Persons Engaged	Number of Japanese Expatriates	Avg. Number of Employees Per Company
1) Finances	96	5104	586	53
2) Security	42	781	287	19
3) Insurance	16	150	36	9
4) Commerce	19	1184	304	62
5) Trading/Agents	336	7673	931	23
6) Ship Manufacturing	4	11	4	3
7) Construction	39	2221	342	57
8) Real Estate	18	183	45	10
9) Manufacturing	181	22431	896	124
10) Warehousing/Transportation	54	1758	189	33
11) Retailing/Department Stores	63	6691	267	106
12) Communication	14	104	47	7
13) Travel Agents	26	906	111	35
14) Education	11	184	124	17
15) Consultant & Management	114	3685	336	32
16) Sundries	14	108	29	8
Total	1047	53174	4534	51

Source: The Hong Kong 1989/90, HONG KONG POST

P.S.: All figures quoted are the results gathered at June 1989.

### Japanese Companies in Hong Kong

Table 5.6



## CHAPTER VI

### JAPAN'S INVESTMENT IN HK'S REAL ESTATE & CONSTRUCTION INDUSTRIES

The first Japanese investment in Hong Kong's real estate was mainly related to setting up business instead of seeking rental flow or capital gain. Indeed, before the middle of 1980, the Japanese investment in Hong Kong's property market was very limited. From the statistics of Japan Finance Ministry, the investment between 1951 to 1985 was only HK\$9,000 million. After 1985, the Japanese aggressively penetrated into the Hong Kong's real estate market and started to aim for rental income and capital growth. The Bond Centre case was a good example. The purchase of Bond Centre by EIE at a price tag of HK\$1,000 million in 1987 was for letting purpose. In 1986 the Japanese real estate investment in Hong Kong was worth HK\$1,400 billion which far exceeded the sum of the past 30 years. In 1987 it further increased to HK\$4,400 million which doubled the cumulated amount of the past 35 years. The total amount in 1988 was HK\$4,400 million and in 1989, the Japanese investment quickly soared to HK\$12,000 million. The average annual growth of Japanese investment in Hong Kong's real estate market between 1986 to 1989 was 125.8%.

#### Focus on Commercial Buildings

To further analyse the trend and the major investment direction of the Japanese investment in Hong Kong's real estate market, we need to look

into the buying pattern of the Japanese investors and the market trend in Hong Kong. In order to achieve this objective, we will refer to an analysis on the major Japanese Real Estate Transactions,<sup>13</sup> supplemented by the Research Reports on Property Index report and Asia-Pacific Property Profile reports from Jones Lang Wootton Ltd.

Based on the Major Transaction Analysis (Table 6.1), the Japanese investment rose sharply from 1986, came to a climax in 1989 and fell sharply in 1990. The decrease could be attributed to the fact that the Japanese Property and Stock market entered an adjustment period in 1990 and the Japanese needed extra cash flow for their home economy. Moreover, the impact of the June 4 event started to take effect. In 1990, the Japanese investment dropped by 60% to a figure of around HK\$4.5 billion.

From the figure on Table 6.1, it is obvious that commercial buildings are the favourites of the Japanese investment. Of the years analyzed, only in 1988 that the shares of commercial investment fell below 50%, which was due to the fact that in that year, the Japanese concluded the purchase of Ramada Inn Kowloon (by Abe International Ventures Corp.), Express Hotel (by Ruby Holding's Ltd) and a hotel site in Irving Street (by EIE Development), at the midst of a hotel shortage and a tourism booming in 1988. More and more Japanese came into Hong Kong and bought a lot of residential flats to accommodate their employees (32% of the real estate investment in 1988 went to residential areas).

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13

"Asian Investment in Hong Kong Property Market", Graduate Thesis by Mr. Raymond K.L. Lum, 1991, Hong Kong Polytechnic



Type	Year	1986	1987	1988	1989	1990	Total
Commercial	Amt. of Purchase	1,047	2,136	1,031	6,295	3,482	13,973
	% rel. to Total	64%	53%	29%	58%	78%	57%
	No. of Trans.	2	9	8	21	18	58
	% rel. to total Commercial trans.	7%	15%	7%	45%	25%	
Residential	Amt. of Purchase	0	870	1,103	1,937	567	4,477
	% rel. to Total	0%	22%	32%	18%	13%	18%
	No. of Trans.	0	9	9	7	7	32
	% rel. to total Residential Trans.	0%	19%	25%	43%	13%	
Hotel	Amt. of Purchase	0	1,002	612	0	0	1,614
	% rel. to Total	0%	25%	18%	0%	0%	7%
	No. of Trans.	0	3	2	0	0	5
	% rel. to total Hotel Trans.	0%	62%	38%	16%	0%	
Industrial	Amt. of Purchase	0	0	0	196	114	1,614
	% rel. to Total	0%	0%	0%	2%	3%	7%
	No. of Trans.	0	0	0	2	1	5
	% rel. to total Industrial trans.	0%	0%	0%	63%	37%	
Site	Amt. of Purchase	600	0	722	2,471	306	4,099
	% rel. to Total	36%	0%	21%	23%	7%	17%
	No. of Trans.	1	0	4	7	3	14
	% rel. to total Site Trans.	15%	0%	21%	71%	10%	
Overall	Total Amount	1,647	4,008	3,450	10,899	4,469	24,473
	Total No.	4	21	23	31	29	113
	Average Tran. Amt.	549	191	150	294	154	217
	%rel to Total	7%	16%	14%	45%	18%	

Source: Vigers H.K Limited

### Major Japanese Transaction Analysis 1986-90 (HK\$ Million)

Table 6.1

The reason why the Japanese were so keen on commercial estate may be the high capital and rental return from it. From the Jones Lang Wootton's Property Index, Hong Kong, Jan. 1992 issue (Table 6.2), the rent of the prime commercial areas in 1990 was 4.2 times of that in 1984, while the purchase price also increased fourfold during this period of time. This clearly outperformed the industrial, retail and residential areas. In fact, the return on rental, for most of the time between 1984 to 1990, was around 10% per annum, which consistently outperformed those of Singapore as well. (The prime office investment yield in Hong Kong was 8% to 10% for the period 1977 to 1990, while in Singapore, for the same period, the yield was only 4% to 7 %).<sup>14</sup>

#### Rationales For The Japanese Investment In Real Estate

The reasons for the surge of Japanese investment were multiple and can be summarized as follows:

- Appreciation of Yen :
  - From 1985 to 1988, Yen had, against US dollar, appreciated 47%. Hong Kong dollar, being pegged to U.S. dollar, suffered such depreciation against Yen, thus making the real estate in Hong Kong attractive to the Japanese.
- High Trade Surplus

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Year	Month	Office Rental	Index Capital	Large Residential Rental	Index Capital
1984	Jan	100.0	100.0	100.0	100.0
1985	Jan	98.6	95.1	109.6	106.7
1986	Jan	129.4	124.4	147.1	143.2
1987	Jan	167.0	143.0	151.1	141.6
1988	Jan	200.6	186.7	160.7	157.5
1989	Jan	359.2	320.9	212.5	217.3
1990	Jan	420.4	386.6	227.9	215.8
1991	Jan	333.5	314.7	216.6	214.0
1992	Jan	309.5	367.5	243.6	330.2

Source: Jones Lang Wooton Research  
Property Index Hong Kong, Jan 1992 issue

Rental and Capital appreciation index of Hong Kong Property  
1984 -- 1992

Table 6.2

- The Japanese exports soared between the year 1982 to 1988 and nearly reached US\$95 billion in 1988. This made the Japanese rich of cash to invest abroad. Moreover, to reduce trade surplus so as to ameliorate trade conflict, the Japanese were encouraged to move the manufacturing plants out of Japan. This further increased the demand for real estate.
- Real Estate Boom in Home Country
  - The commercial land price in Tokyo rose by 40.5% in the 12 months ending July 1, 1986, followed by an increase of 70.3% in the succeeding year. The price was already too high for the Japanese who started to look abroad for real estate investment.

Moreover, the basic advantages of Hong Kong, which include the low tax rate, virtually no restriction on the owning of property, very good infrastructure, its gateway position to mainland China, plus its proximity to Japan....., are still attracting the Japanese investors.

The history of Japanese investment in Hong Kong's real estate can be reflected in the change-hands of the prestigious Bond Centre, the pair of skyscrapers located in the prime area in the middle of Central and Wanchai. In April 1987, EIE Development, the local arm of the Japanese property giant EIE, bought 50% of the complex from the Australian tycoon, Mr. Alan Bond, at a price tag of HK\$1 billion. In May 1989, EIE bought the rest of the complex for HK\$2.25 billion. At the time of purchase EIE



said that the entire building would be held as a property investment.<sup>15</sup> By the end of 1990, EIE sold nearly most of the East Tower to a handful of Japanese investors (Table 6.3). A spokesman said EIE recognised that it needed to reduce the level of its gearing.

The Bond Centre deal showed how willingly the Japanese make substantial investment in Hong Kong, however, as situation turns uncertain, they will become more conservative.

#### Commitment From The Japanese Construction Companies

Lured by the booming of real estate industry, as well as the heavy infrastructure development (e.g. Mass-Transit Railway, the two Cross-Harbour Tunnels, and the future Chak Lap Kok Airport project), the Japanese contractor giants began to establish themselves in Hong Kong in some areas in the early 1970's. By the end of 1988, the number of Japanese Contractors had grown to 18. Among these companies, Nishimatsu is one of the most prominent contractors. Nishimatsu was famous in building the MTR. In 1976, Nishimatsu bid for the modified scheme of Phase One and was successful in the early contracts. In 1980, Nishimatsu won the Phase Two contract. Nishimatsu's Yanagisawa said that his company took a long-term view towards Hong Kong's future : **"Hong Kong's population will be seven million by the year 2010. Taking these sorts of things into consideration, there is no reason to be negative about the future. Some 600 Hong Kong companies are already connected to China and they employ**

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<sup>15</sup> "Japanese in big Bond Centre deal" -- South China Morning Post, May 30, 1990

Date	Property	Price (HK\$ Million)	Purchaser
04/87	89 Queensway Bond Center (50%)	1,000	EIE Development
05/89	89 Queensway Bond Center (100%)	2,255	EIE Development
10/90	14/F. & 15/F. East Tower, Bond Center	161	Tokyo Sekitei
10/90	6/F. East Tower Bond Center	65.8	Tsutomu Matsuzaki
10/90	11/F. -- 13/F. East Tower, Bond Center	266.7	Jobex Inv.
11/90	7/F., 8/F., 36/F., 37/F. East Tower, Bond Center	351.8	Jade Shell Ltd.
11/90	20/F. East Tower Bond Center	95.3	Nippon Mic
11/90	44/F. -- 45/F. East Tower, Bond Center	133.8	General Lease
11/90	21/F. East Tower Bond Center	90	Nippon Mic
11/90	43/F. East Tower Bond Center	66.9	Tingrace Development
11/90	28/F., 29/F., 31/F., 32/F. East Tower, Bond Center	353.5	Ful Ltd.
11/90	33/F. East Tower Bond Center	104.3	Hfv Ltd
11/90	19/F. East Tower Bond Center	80.8	Suzuyo Warehousing
11/90	18/F. East Tower Bond Center	82.7	Guide Board Inv.
11/90	10/F. East Tower Bond Center	81.6	Frame-On Development
11/90	4/F., 5/F1. East Tower, Bond Center	103.8	Cosmo Sweet

### Purchasing/Selling Transaction History of Bond Centre

Table 6.3



2.5 million people." Yanagisawa added. "By the end of the century it will be up to four million people. Hong Kong needs China and people in China need the jobs provided by companies in Hong Kong. There is no reason to be pessimistic about the future".<sup>16</sup>

Nishimatsu's commitment to Hong Kong was well exemplified by the building of the Standard Chartered Bank. In that case, Nishimatsu offered to purchase a 25 year sub-lease on the site which has a total of 850 years unexpired in favor of the bank. The purchase figure was an enormous amount which ran into HK\$100's millions and gave a considerable advantage to Standard Chartered Bank and alleviated their liquidity problem. Nishimatsu then contracted to construct the new banking headquarters funding the entire development, including consultants and professional fees. The total development costs were reported to be in excess of HK\$600 million. In return, the bank would lease back 70% of the completed development for the remaining 23 years after completion at a fixed rent of HK\$20 per sq. ft. per month without review but with a built-in inflation rate of 4% per annum. The remaining 30% would be available to be let on an open market basis with the Chartered Bank retaining an option to occupy 50% remaining space. In this way, Nishimatsu has taken on what appears to be a form of equity participation scheme but in reality has been able to calculate a fixed return on her investment of at least 70% of the scheme and probably 85%.

From this case, we can see that the Japanese Construction firms are ready to make long-term commitment in Hong Kong and are ready to take up projects well beyond 1997.<sup>17</sup>

#### Directions For Future Japanese Investment

To look ahead, the favourable factors mentioned in the preceding section have perished. The exchange rate of Yen is now stabilized; Japanese trade surplus is reducing; the real estate market in Japan started to consolidate in 1989 and the cost of real estate in Hong Kong is no longer cheap. The concerns of the Japanese investors are basically Hong Kong's political stability and the yield of their investment. As long as the economy growth of Hong Kong and South China sustains, the political environment of China is stable, the real estate investment can deliver a yield near to 10% (for commercial estates), and the construction projects can ensure a long and steady cash-flow, Hong Kong is still a good place for the Japanese investors.



## CHAPTER VII

### JAPAN'S INTERESTS IN HONG KONG'S FINANCIAL INDUSTRY

#### Nature Of Hong Kong's Financial Industry

Hong Kong is an international financial centre. In 1990, there are altogether 168 Licensed Banks, 46 Restricted License Bank, 191 Deposit-Taking companies,<sup>18</sup> not to mention the 155 Local Representative Offices of foreign banks. The current classification of various types of banks was established in March 8, 1989. It was named the three-tier system which is composed of, as mentioned above, the Licensed banks, Restricted License Bank (RLB) and Deposit-taking Companies (DTCs). Their functions are :

- Licensed Bank

- They provide normal banking services. This includes acceptance of deposits of any maturity and size; grant loans and advances; discount trade bills and bankers acceptance; deal in gold, foreign exchange, and other securities; and provide business consultative services.

- Restricted Bank

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<sup>18</sup> Hong Kong Commissioner of Banking, Annual Report 1990

- They are investment banks or merchant banks. They take deposit of large denominations, underwrite securities, deal in foreign exchange and other securities, and provide financial advisory services in issuance of securities and mergers and acquisitions.
- Deposit-taking companies
  - They are financial companies taking deposits, granting loans to medium to small business, factoring and leasing.<sup>19</sup>

The internationalization of Hong Kong's banking industry started in 1978 when the Hong Kong government lifted the moratorium on bank licensing. After that, many foreign banks opened their office in Hong Kong. By the end of 1990, the number of foreign banks outnumbered their Hong Kong counterparts in a ratio of 10 to 1 (Table 7.1).

#### Role Of Japanese Banks In Hong Kong

Out of these foreign banks, Japanese banks form the largest group of banks by number (Table 7.1) and by asset (Table 7.2). Starting from 1986, the market share of Japanese banks rose sharply, both in terms of Hong Kong Currency asset which rose from a mere of 9% in 1986 to 17% in 1990, and in terms of Foreign Currency asset, which rose from 56% in 1986 to a dominating 68% in 1990! Hong Kong has become the destination for Japanese financial institutions expanding in Asia. Moreover, many of the

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<sup>19</sup> "The Banking System, an Overview", Dr. Richard Yan-Ki Ho. Head Department of Economics and Business, City Polytechnic of Hong Kong.



Country/ Region	Licensed Banks		Restricted License Banks		Deposit-taking Companies		Local Rep. Offices	
	89	90	89	90	89	90	89	90
Japan	30	31	8	11	29	31	25	32
USA	20	20	5	7	29	26	17	12
China	15	15	1	1	16	16	1	1
Germany	9	9	--	--	4	2	3	3
France	8	8	1	1	10	9	3	2
U.K.	7	7	8	7	5	5	7	8
Hong Kong	15	15	4	3	25	20	N/A	N/A

Source: Annual Report, 1990  
Commissioner of Banking, Hong Kong

Authorized Institutions; Local Representative Office  
Country/Region of Beneficial Ownership/Incorporation

Table 7.1

(HK\$ billion)

		China	Japan	USA	Europe	Others	Total
1986	HK\$	94	47	56	95	208	500
	F/Cy	63	934	144	276	227	1,650
	Total	163	981	200	371	435	2,150
1987	HK\$	112	63	56	115	240	587
	F/Cy	113	1,706	164	367	281	2,631
	Total	225	1,769	221	482	521	3,218
1988	HK\$	150	96	58	129	273	706
	F/Cy	149	1,984	159	377	323	2,992
	Total	299	2,080	216	506	596	3,698
1989	HK\$	169	147	73	157	325	871
	F/Cy	160	2,237	183	416	380	3,376
	Total	329	2,384	256	573	705	4,247
1990	HK\$	202	172	81	165	380	1,000
	F/Cy	195	2,877	213	468	481	4,234
	Total	397	3,050	294	633	861	5,234

Source: Annual Report, 1990  
Commissioner of Banking, Hong Kong

### Assets by Country/Region of Beneficial Ownership

Table 7.2



local Chinese banks had been either bought by or partly owned by Japanese banks, namely :

- Chekiang First Bank wholly owned by Dai-Ichi Kangyo Bank.
- Kwong On Bank with 55% owned by Fuji Bank.
- Commercial Bank of Hong Kong with 10% owned by Tokai Bank.
- Liu Chong Hing Bank with 12.5% owned by Mitsuishi Bank
- Dah Sing Bank with 20% owned by Mitsui Bank.<sup>20</sup>

The surge of Japanese financial investment in Hong Kong is related to the surge of the overall Japanese investment. In many cases, Japanese banks have simply followed their domestic customers to Hong Kong. For instance, Fukuoka City Bank Ltd., a Japanese bank based on Japan's southern Kyushu island, opened a subsidiary in Hong Kong in late 1990. The aim of setting up the subsidiary is to act as a middleman for Kyushu businessmen who have dealings with Hong Kong. **"I don't think many clients will want to issue bonds overseas as soon as we set up our Hong Kong unit, because our major clients are jewellery and furniture importers, but we see securities underwriting as one of the most important services in future."**, the Fukuoka City Bank official said. Another Japanese regional bank, the Tokyo Tomin, shared the same view. Mr Kiyoshi Kitagaki, an assistant manager of Tokyo Tomin said it was inevitable that regional

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banks offer complete financial services, especially international underwriting services. "Otherwise our clients will increasingly desert us for the major city banks", Kitagaki said.<sup>21</sup>

Besides following their customers, Japanese financial institutes also see Hong Kong as a testing ground to gain international experience, and to exploit the advantage of globalization. Yamaichi International (H.K.) Ltd., the local financial arm of the giant Yamaichi Securities Co. Ltd., is the first of her overseas branch to implement the new global computer systems. Moreover, Hong Kong is an international financial and free trade centre with efficient infrastructure and attractive taxation system and these are impetus for Yamaichi to introduce new systems here.<sup>22</sup>

#### Vitality Of Japanese Financial Investment

The Japanese banks in Hong Kong are mainly concentrated on loan syndication and securities underwriting. They are key players in most syndications here and their support is a virtual requirement for the success of large funding projects. In mid-1989, Japanese banks provided most of the funding for a HK\$ 10.5 billion port expansion being undertaken by private Hong Kong International Terminals. Most other banks here stayed away because the pricing was too low and the tenor too long at seven to nine years. In early 1990, the Hong Kong branch of China-backed China International Trust and Investment Corp (CITIC) sought to raise HK\$

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<sup>21</sup>

South China Morning Post, July 24, 1990.

<sup>22</sup>

Annual Reports, 1989 & 1990, Yamaichi International (H.K.) Ltd.



1 billion on the local market to help finance the purchase of a 20% stake in the local telecommunications giant, Hong Kong Telecom. This project was only successful with the support of the Japanese banks.<sup>23</sup>

As reflected in Table 7.3 and 7.4 Hong Kong is a prime "booking centre" for regional banking. The deposits in Japanese banks, in foreign currency, is 10 billion, however, the loans is 969 billion, more than 9 times of the deposits value! This is due to the fact that Hong Kong is a low-tax centre.<sup>24</sup> With such a small deposit base, and such a large loan dealing, Japanese banks have generally financed their business from overseas and transacted with offshore customers.

After looking at the above facts, it is indisputable that Japanese banks are playing a major role in Hong Kong financial sector, especially in foreign currency deposit and lending, helping Hong Kong to retain the role as a major financial centre in South-East Asia. To summarize, the reasons for the Japanese banks to branch into Hong Kong are :

- follow their domestic customers to expand to Hong Kong and to provide financial services to them.
- use Hong Kong as a testing ground to globalize.

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<sup>23</sup>

"Japan's Growing Economic Stake in Hong Kong." U.S. Consulate General, Hong Kong. June 1990

<sup>24</sup>

"The Role of Hongkong Bank", Dr. Y.C. Jao, Reader, University of Hong Kong, in the book "The Hong Kong Financial System", *Oxford University Press 1991*

(HK\$ billion)

		China	Japan	USA	Europe	Others	Total
1986	HK\$	58	8	20	35	152	273
	F/Cy	44	46	43	64	81	278
	Total	102	54	63	99	233	551
1987	HK\$	76	10	23	44	178	331
	F/Cy	63	56	54	87	113	373
	Total	139	66	77	131	291	704
1988	HK\$	88	15	23	55	210	391
	F/Cy	90	65	59	97	144	455
	Total	178	80	82	152	354	846
1989	HK\$	96	19	28	59	249	451
	F/Cy	100	82	72	109	194	557
	Total	196	101	100	168	443	1,008
1990	HK\$	115	25	33	63	283	520
	F/Cy	139	100	86	133	254	711
	Total	254	125	119	196	537	1,231

Source: Annual Report, 1990  
Commissioner of Banking, Hong Kong

### Deposits by Country/Region of Beneficial Ownership

Table 7.3



(HK\$ billion)

		China	Japan	USA	Europe	Others	Total
1986	HK\$	46	26	33	39	107	250
	F/Cy	12	135	25	44	36	250
	Total	57	160	57	83	143	501
1987	HK\$	59	37	36	51	127	309
	F/Cy	16	322	29	57	46	469
	Total	75	359	64	108	173	779
1988	HK\$	79	61	39	65	161	405
	F/Cy	24	390	26	68	50	558
	Total	103	451	65	133	211	962
1989	HK\$	83	98	53	81	204	525
	F/Cy	25	563	27	78	53	747
	Total	109	661	80	165	257	1,272
1990	HK\$	96	118	63	95	235	607
	F/Cy	27	969	28	91	67	1,182
	Total	123	1,087	91	186	302	1,789

Source: Annual Report, 1990  
Commissioner of Banking, Hong Kong

#### Loans by Country/Region of Beneficial Ownership

Table 7.4

- Hong Kong is an attractive place with its non-discriminatory regulations and laissez-faire financial policy.

As the above factors are still prevailing, the Japanese investment in Hong Kong's financial sectors will continue to grow in the foreseeable future.



## CHAPTER VIII

### PENETRATION OF JAPANESE DEPARTMENT STORE

#### Retail/Department Store Industry In Hong Kong

Retail/department store industry covers various types of selling including the traditional department stores to supermarket chains, various speciality shops, western-style convenience stores and even non-store retailing such as door-to-door selling and mail order, etc. The retailing business in Japan is basically partitioned by the top ten companies and the competition has always been very intense in the domestic market. Moreover, these large retailers have also opened a number of branch stores and representative offices in foreign countries, some of which are incorporated as overseas subsidiaries. Although some large supermarkets also operate their stores abroad, the number of the stores is still relatively small at present, since they have less experience in overseas operations than department stores.

In Hong Kong there are five locally owned department store groups - Wing On, Sincere, Shui Hing, Dragon Seed (owned by Tokyu), and Lane Crawford as well as the few Chinese-owned department stores including Yue Hwa, Chung Kiu, and China Products Emporium. In recent years Japanese companies dominate the fast-growing department store market with 44% and 48% of total department store sales in 1990 and 1991 respectively, according to the latest report from Nomura Research International. The

first entry of Japanese department store can be traced back to 1960 when Daimaru opened its branch in Causeway Bay. Throughout the 1970's, there were two other Japanese department stores, Isetan and Matsuzakaya, which entered into the Hong Kong market. But from 1980 onwards, the retailing/department store business prospered. By the end of 1991, a total number of 20 stores owned by eleven different Japanese companies are doing business in Hong Kong (see Table 8.1). Furthermore, some local department stores like Wing On are actually operating with a considerable amount of equity shares acquired by the Japanese companies. Most of the Japanese department stores also provide supermarket services as well.

Apart from the giant department stores, there are also some other Japanese retailers tapping profits from different niches in Hong Kong. For example, Circle K is the convenience shops chain that competes hard with the other two local large chains, Wellcome and Park'n Shops. Suzuya and San Ai are speciality stores marketing Japanese fashion.

### The Success Of Japanese Retailers

The rapid rise of the Japanese department stores in the Hong Kong retailing market is not a surprise if their management strategies have been studied. Firstly, the Japanese retailers well understand their target markets and position themselves according to the identified market niches. As the economy grows, the general purchasing power expands and the middle class emerges, which becomes a potential consumer base. The Japanese department stores, grasping this opportunity, build up their strongholds by targeting on this large group of consumers.



Name of Department Store	District	Opening Date (YY/MM/DD)	Size of Store (in sq. metre)
Daimaru	Causeway Bay	60/11/3	5,500
Isetan	Tsim Sha Tsui Aberdeen	73/9/27 87/1/17	2,400 2,300
Matsuzakaya	Causeway Bay Queensway	75/4/2 81/9/21	5,200 1,020
Mitsukoshi	Causeway Bay Tsim Sha Tsui	81/8/26 88/11/18	11,000 7,800
Tokyu	Tsim Sha Tsui	82/6/1	7,500
Yaohan	Shatin Tsun Mun Hung Hom Tsuen Wan	84/12/9 87/12/9 88/12/9 91/6/18	14,700 22,000 13,000 14,000
Sogo	Causeway Bay	85/5/30	12,000
Uny	Tai Koo Shing	87/6/12	13,000
Jusco	Tai Koo Shing Tsim Sha Tsui Tsuen Wan Lok Fu	87/11/20 90/6/15 91/4/20 91/6/13	18,000 4,300 14,000 10,000
Seiyu	Shatin	90/9/29	10,400
Seibu	Admiralty	90/11/25	10,000

Source: Nikko

## Japanese Department Stores in Hong Kong

Table 8.1

Secondly, the Japanese department stores emphasize the importance of store location. Their stores are all opened in districts with high population density and sound transportation facilities such as Yaohan at Shatin and Whampoa, Uny at Tai Koo Shing, and Jusco at Kornhill and Lok Fu. Their existence further stimulates the prosperity of these districts.

The concept of "shopping and leisure" centre is another success factor. The Japanese department stores have broken the retailing tradition by combining the supermarket, restaurants, speciality shops and fun fairs into the department stores so that various different kinds of services can be available in a single shopping centre.

The Japanese retailers stress on the scientific strategic planning and economic efficiency. Every company has its own management philosophy and marketing policy which serve as a guideline to all of its employees. They also invest a lot in training, computerization and advertising in order to maintain the high quality of services and increase the economic efficiency.

### Investment Decisions And Strategies

The following case studies will focus on the investment decisions and strategic planning of some of the major Japanese department stores operating in Hong Kong. Let's examine how they predict the future of the retail business so as to position themselves accordingly.

#### ISETAN



Isetan, the Japanese department store group, was celebrating its 18th anniversary in Hong Kong in October, 1990 and planning to build a third outlet in Hong Kong which will be four times larger than either of its existing two stores, one in Tsim Sha Tsui and the other in Aberdeen. According to Isetan (Hong Kong) managing director Taketoshi Nakayama, the group is seeking, by lease or outright purchase, a 10,000 square metre site in a prime retail area to expand its business in the territory. The new store will be Isetan's main outlet in Hong Kong. Despite the flood of Japanese stores into the territory over the past decade, Mr. Nakayama said the Isetan group had retained its high place in the sale of upmarket consumer goods to young adults. Sales at its stores have been boosted by an increasing number of tourist customers. According to estimates, this has been as much as 15%. Yet as of March 1992, the expansion plan of opening the third store was still under consideration due to some changes in its internal strategic planning regarding overseas operations.<sup>25</sup>

#### YAOHAN

While hundreds of Hong Kong people frantically seek foreign passports before China's takeover, Japanese businessman Kazuo Wada proudly announced that he has acquired an identification card issued to local residents by the Hong Kong government and his retailing giant Yaohan International moved from Japan to Hong Kong.

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"Isetan to build its 3rd outlet." *South China Morning Post*. (Oct 1991)

Yaohan Department Store (HK), the locally-listed retail and distribution division of Yaohan International Co. will open its sixth outlet in Yuen Long in June 1992. The first Yaohan opened in Shatin in 1984, followed by its second in Tuen Mun in 1987, the third in Hung Hom in 1988 and the fourth in Tseun Wan in 1990. In April 1989 Yaohan even moved its headquarters from Japan to Hong Kong, for which it had purchased two floors of space at the Hong Kong Convention & Exhibition Centre. Yaohan has mapped out an ambitious plan to strengthen its presence in the local retail market with stores to open in the next few years. The stores in Lam Tin, Macau and Yuen Long would bring Yaohan HK's chain to a total of nine in Hong Kong and Macau.

Mr. Wada, said last June in a press conference that the group would be investing HK\$50 million (US\$6.5 million) for the lease and merchandise to be sold in the Yuen Long store and a 10-year lease agreement between Yaohan and Wing Wah group was signed. Furthermore, Yaohan was planning to spend HK\$110 million (US\$14 million) on mergers and acquisitions in Hong Kong and hoped to become a major player in the food and restaurant business. They chose Hong Kong because of its proximity to their homeland, its taxation structure and also its well-established status as a financial centre.<sup>26</sup> Some analysts have predicted that by 1993 Yaohan will overtake the upmarket Lane Crawford to become the biggest department store in Hong Kong, racking up an annual turnover of HK2.75 billion, more than double 1990's HK\$1.26 billion.

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"Yaohan Plan Expansion." *Hong Kong Standard*. (July 1991).



## SEIYU

Japanese store conglomerate Seiyu has taken a 40% stake in Wing On Department Stores for HK\$356 million. This was seen as the first Japan-Hong Kong department store team-up. The tie-up joined one of Hong Kong's oldest family-run businesses with a powerful Japanese retailer eager to become a force throughout Asia. The Wing On department store group would continue its policy of gradual enlargement of its Hong Kong department store network through the opening of new stores in new and established areas of high population flows. Seiyu's expertise incorporated into the Hong Kong company, which definitely benefited from opportunities in the territory's retailing already identified by Seiyu. Seiyu's move was perhaps the first attempt to meld the long-term thinking of a Japanese company with the notoriously short-term outlook of a Hong Kong business. For Wing On, Seiyu was an ally with the know-how to modernize Wing On's operations and the financial muscle to help it upgrade in Hong Kong and expand overseas. Seiyu is listed on the Tokyo stock exchange and has a market capitalization of about HK\$20 billion.<sup>27</sup>

## UNY

Most Japanese department stores have concentrated on Tsim Sha Tsui and Causeway Bay in order to attract tourists and upmarket shoppers, but Uny chose Tai Koo Shing for its first Hong Kong store so as to reach local customers. Uny may not be as well known in Hong Kong as Matsuzakaya,

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"Wing On Stores Enters Alliance With Japan's Seiyu." *Business International*. (September 30, 1991). p.333.

Mitsukoshi, Sogo or Yaohan, but still has its share of the territory's burgeoning retail market. Unlike many of Hong Kong's department stores which target at specific income sectors, Uny goes for all income levels although the middle-class remains its bread-and-butter customers. As Hong Kong is renowned for its food-loving people, it is no surprise that food is the most popular merchandise in Uny, which has a supermarket and a cafe.

### SOGO

Japanese retailer Sogo has unveiled plans for a HK\$1.9 billion office and retail project - effectively doubling the size of its Causeway Bay department store - as part of a major group expansion drive in Hong Kong.<sup>28</sup> Announcing the move, Sogo group president Hiroo Mizushima said the Causeway Bay development, scheduled for completion in autumn 1993, comprised a 22-storey department store and office complex on a site next to the existing store. The expansion would make Sogo the largest single department store in the territory. Dr. Mizushima said at a press conference,

The project has been undertaken only after the most exhaustive research into the Hong Kong retail market's potential. It goes without saying that we foresee excellent prospects, especially for the retail industry in Hong Kong. Hong Kong's economic growth was

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"Sogo unveils \$1.9b plan for complex." *South China Morning Post*. (December 1991).



assured by the territory's role as an important import and export centre for China's products and entry point for overseas technology into the mainland.

The development demonstrated the group's commitment to Hong Kong and its confidence in the territory's future prosperity.

### JUSCO

Jusco (Hong Kong) will launch a full-scale renovation of its Kornhill store as part of a strategy aimed at combatting the highly competitive retail market. Although Jusco has temporarily suspended plans to open another 10 speciality stores in the territory at a cost of HK\$400 million due mainly to soaring rentals, they have not given up the plan. Managing director Tatshuichi Yamaguchi said Jusco will proceed when the market improves.<sup>29</sup>

### TAKASHIMAYA

Japan's most prestigious department store, Takashimaya Company, is studying the feasibility of setting up its first department store in Hong Kong in Times Square, the \$1.5 billion commercial complex being developed by Wharf Holdings in Causeway Bay.<sup>30</sup> It was looking for a place where it

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<sup>29</sup>

"Jusco plans full-scale renovation." *Hong Kong Standard*. (January 1992).

<sup>30</sup>

could set up an office to oversee its operations and potential expansion. Analysts have described Takeshimaya as the largest group in Japan's retail industry. Apart from 17 department stores that it operates in major cities in Japan, Takashimaya also has branches in New York and Paris. The first department store to be set up by Takashimaya in Asia would be located in Singapore. Hong Kong and Taiwan have been selected as the next areas for the group's expansion in the Asian region.

#### High Growth Potential And Direction For The Future

Japanese stores have helped drive shopping in Hong Kong in an entirely new direction, with the department stores showing the fastest growth of any retail sector in the past few years. Modernization of the retail industry has been progressing since 1987 with significant increases in new openings of big department stores. Table 8.2 shows that department store sales accounted for about 12% of the total retail business in 1987, indicating a 27% year-to-year growth rate. In 1988, it accounted for 13% of the total with a 38% growth rate from previous year. Even though the boom for the entire retail industry slowed down, the annual growth rates for the department store sales could still make a double-digit figure, 11% in 1989 and about 13% in 1990.

Based on the above case studies, most of the large Japanese retailers are planning for future development or expansion in Hong Kong. In fact,

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"Retailer has eye on Times Square." *Hong Kong Standard* .  
(January 1990).



	Department Store			All Retail Sales	
Year	Sales	Annual Growth Rate (%)	Percentage to All Retail Sales	Sales	Annual Growth Rate (%)
1986	7745	5.0	10.8	71713	5.8
1987	9890	27.7	11.8	83813	16.9
1988	13697	38.5	13.4	102216	21.9
1989	15234	11.2	14.2	107281	5.0
1990	17195	12.9	14.9	115378	7.5

(In millions of US dollars)

Source: Nikko

Retail Sales in Hong Kong

Table 8.2

their optimistic forecasts have been made under detailed analysis on the statistical data and careful consideration on all other political, economic, social, and environmental factors. The substantial increase in retail sales in Hong Kong - 17% growth in 1987 followed by 21% in 1988 - is largely attributed to the rising purchasing power of people and a sharp increase in tourists (Table 8.2). Hong Kong is now a rapidly maturing retail market, with per capita gross domestic product over HK\$104,000 in 1991 compared with HK\$27,075 in 1980. The average 10-year growth rate from 1980 to 1990 was 5.5% (Table 8.3). The fast growing GDP per capital implies a drive for consumption. Apart from the domestic demand, the tourists also contribute a relatively large amount of the total sales to these Japanese department stores. Japanese people represent the largest number of foreign visitors to Hong Kong, over one million-a-year. Many of them shop here, including at local Japanese department stores because they can buy more cheaply than in Japan. In addition to the increase in tourist arrivals, a new and younger generation more attuned to consumption has emerged. A larger and growing middle class and a tendency towards nuclear families rather than the traditional extended family further drive the consumption boom. A majority of these consumer groups are "made in Japan" fans. The growth for total retail sales though has fallen off in the recent years, 5% in 1989 and 7% in 1990, which is a direct result of the economic slowdown and the troubles in China that has affected tourist arrival. But the performance of the Japanese department store was still conspicuous.

In response to increasing individualized consumption, future expansion of these Japanese department stores will take a more diversified



Year	Private Consumption Expenditure	Gross Domestic Products	Per Capita GDP (\$)
1980	85,262	137,081	27,075
1981	102,454	164,973	31,827
1982	118,928	186,328	35,393
1983	138,928	207,562	38,832
1994	158,605	248,728	46,079
1985	169,855	261,195	47,871
1986	191,677	300,818	54,372
1987	221,756	369,275	65,785
1988	255,865	434,023	76,395
1989	284,584	490,811	85,190
1990	321,265	546,058	94,138
1991	364,100	613,190	104,590

(In millions of HK dollars)

Source: Census &amp; Statistics Department

Expenditure On the Gross Domestic Product  
at Current Market Prices 1980 to 1990

Table 8.3

approach. Focus will be on the new retail areas such as speciality stores like boutiques and big urban-style shopping centres, as well as restaurants and coffee shops. The supermarket business will continue to flourish as a major product line of these large Japanese retailers. We believe that the retailing/department store business still has tremendous potential for growth as the Japanese retailers show great interests in making continuous investment in this field.



## CHAPTER IX

### CONCLUSION

After studying the trend of Japanese foreign investment and the changes in investment areas as well as consolidating the opinions from various sources including the trade organizations, government officials and high Japanese business executives, we have the following observations on why the Japanese are so enthusiastic in investing abroad :

1. The investment opportunity in Japan has not been so promising as before. The Japanese manufacturers find it hard to be competitive with the high labour and land cost. The situation is further aggravated by the strong yen the Japan's trading partners exerted on her. To face these challenges, the Japanese have to increase productivity through automation, or invest abroad where the labour and land cost is much lower. For high-technology products, it is feasible to employ machinery more intensively so as to reduce labour cost. But for low-end products, the Japanese have no choice but move the production base abroad.
2. To reduce cost of production, besides cutting the labour and land cost, another way is to produce at a very large output level. As the internal market and the traditional trading partners seem to become saturated to absorb this vast production, the Japanese have to look for new markets and outlets.

3. With the growth of protectionism, Japan's trading partners are impatient with the huge trading surplus enjoyed by Japan and are setting barriers to restrict the import of Japanese goods. To tackle this problem, the Japanese have to manufacture the products in areas outside Japan so that the products will not carry a "Made in Japan" label.
4. With the emergence of economic spheres, i.e. the economic unification of EEC countries, and the Free-Trade agreements between USA and Canada, USA and Mexico, it may be difficult for countries outside these spheres to enter these markets. To continue selling in these economic spheres, and to increase future negotiation power, the Japanese are investing in these countries on one hand, and building a closer relationship with Pacific Rim countries hoping to form another economic power on the other.
5. The Pacific Rim region is a fast-growing area. With its proximity to Japan, and the growing income of its people, the countries in this region are good investment grounds for the cash-rich Japanese giants and enormous markets for the Japanese goods.
6. China, with her 1 billion people and rich endowment of resources, is a huge potential market and a source of natural resources. Together with the Open Policy and the Four Modernization Plan on hand, the economic power of China is expected to grow. Investing in China is strategically desirable.



Having the above background in mind, it is not hard to see why Hong Kong is a good investment ground for the Japanese investors. The attractions of Hong Kong have been discussed in the previous chapters and below is a summary of all these advantages :

1. The location of Hong Kong is at the centre of the Pacific Rim region. Its proximity to Japan and the comprehensive communication facilities available further reduce the distance between the two places.
2. Hong Kong is a traditional trading partner and manufacturing centre for the Japanese. With the increase of income of its people, Hong Kong is also a lucrative market, especially for the Japanese retail firms.
3. The policy of the Hong Kong government also plays a key role in attracting the Japanese investors. There is virtually no barrier to the investors: low tax rate, free entry of goods for most products, no restriction on the inflow and outflow of foreign exchange, good infrastructure, effective and efficient trading organizations (both governmental and semi-governmental)..... all these are stimulations for the existing and potential Japanese investors.
4. The Japanese are enjoying a comparatively good return on investment in Hong Kong, particularly in the Real Estate market and in the Retail business.
5. Last but not least, Hong Kong is the gateway to mainland China, which still serves as a major bridgestone in developing the huge market.

Based on the reasons stated above and the analysis conducted in the previous chapters, we believe that Japanese investment in Hong Kong is still in the uptrend. However, this does not mean that this trend will grow continuously without disruption nor will it grow in all areas. Instead, the emphasis of Japanese investment in Hong Kong is shifting from manufacturing to non-manufacturing, especially in financial, real estate and retail area. This phenomenon coincides with Hong Kong's development from a manufacturing to a financial and service centre. Moreover, Japanese investment is seeking for niches which are fast moving with stable return and capital appreciation. Retail business and real estate are the typical examples. Though the Japanese investment are usually more long-term in nature such as building new factories, they are also sensitive to political stability and influenced a lot by their mother-country's financial conditions. In real estate, there was a 60% drop in investment in 1990 in the wake of June-4 incident and the collapse of the "bubble" economy in Japan when the real estate prices in Japan started to drop.

To conclude, if Hong Kong can maintain its attractiveness as stated in the beginning of this section and remain internationalized, even though there might be a few swings expected toward 1997, we believe investments, not only from Japan but also from the U.S. and Europe will continue to come into Hong Kong as they had in the past. Japanese companies in general feel that Hong Kong's economy is very likely to remain prosperous and well managed throughout the 1990's. The government of Japan also feels optimistic about the future of the Hong Kong economy and encourages Japanese companies to invest in Hong Kong. "Even after the event of June 1989 in Beijing, investment in Hong Kong continued to rise. For example



one year ago the Japanese Chamber of Commerce in Hong Kong had about 480 members but in one year the number is 560. The total number of Japanese companies in Hong Kong rose to 1,200..... China has guaranteed that Hong Kong's way of life can continue for 50 years after 1997 and if this is really so, then I think Hong Kong will still continue to be the most convenient gateway to China," said Mr. Hiroshi Zaizen, the Chairman of Japanese Chamber of Commerce.<sup>31</sup>

The confidence in investing in China is now restoring and the diplomatic contact between China and the rest of the World has significantly increased by the end of 1991 and in early 1992. The Japanese firms are the first firms to resume their business in China. If the Japanese are confident in the future of China and willing to invest in China, there is no reason why they will find 1997 an obstacle for their investment in Hong Kong. Hong Kong has successfully overcome quite a few adversities in the past few decades. Yet its position as one of the world-class cities is never changed. We believe Hong Kong can sustain or even enhance its growth in the coming years.

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